TAXES TODAY

eNewsletter for Tax Professionals

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The SECURE Act: Yay or Nay?

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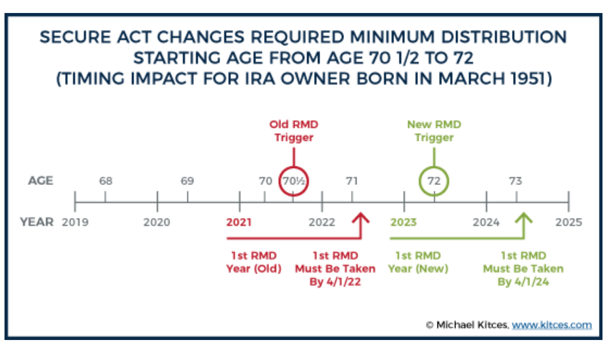
I'm excited to bring you our first 2020 edition of *Taxes Today*, where we will focus on some big legislation that will impact the way our clients manage their retirement money and personal income tax situations. In particular, the way Inherited IRAs, QCDs, and annuities should be handled.

Officially known as the "Setting Every Community Up for Retirement Enhancement" Act, or "SECURE Act," this legislation was signed into law at the end of 2019 with the bi-partisan goal of strengthening the retirement security of Americans across the country. While there are certainly clear positives to come out of this act, the net result to retirement savers is more of a mixed bag. Six important provisions of the SECURE Act are found below:

First, the positives:

1. The age for required minimum distributions (RMDs) for both IRAs and 401(k)s has been increased from 70½ to 72. With Americans working and living longer, increasing the RMD age, which has not been changed since the early 1960s, makes obvious sense to us.
2. The maximum allowable age to contribute to a traditional IRA, previously 70½, has been *eliminated*. This will allow Americans still working after age 70½ to continue to **tax-efficiently** build their retirement "nest egg."
3. There are now broader opportunities for part-time employees to join their company-sponsored 401(k) plan. Prior to the SECURE Act, employees that worked less than 1,000 hours every year were not eligible to participate in their company's 401(k) plan. However, with the passing of the new bill, the law generally now requires employers who sponsor a 401(k) plan to make it available to any employee who worked more than 1,000 hours in any full year, or 500 hours in three consecutive years.

Please note: the new RMD rules mentioned above began this year.



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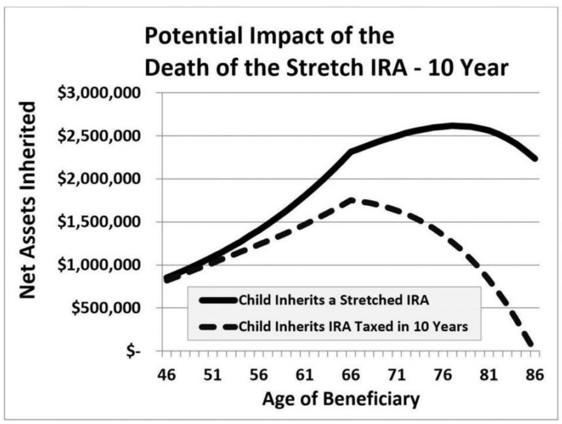
Next, the more problematic provisions:

1. Prior to the passing of the SECURE Act, an Inherited IRA or 401(k) RMD could be "stretched" over the holder's *life expectancy*. After January 1, 2020, the law requires that any beneficiary, subject to some exceptions, who inherits an IRA or 401(k) withdraw **all of** the assets from these plans within 10 years of the death of the account holder. While there are no required minimum distributions for any one particular year, the entire balance **must be** distributed by the end of the tenth year. This makes tax planning for Inherited IRAs critical, as Inherited IRA owners are now more likely to be taking material, and taxable, distributions during years they are still working.
2. As mentioned above, the SECURE Act eliminated the 70½ age restriction for making IRA contributions. However, the act did not adjust the age that qualified charitable distributions (QCDs) can be made, which remains 70½. As a result, if a taxpayer over 70½ were to make a deductible IRA contribution and a QCD in the same year, the IRS would view this as double-dipping, resulting in the QCD being included in taxable income up to the amount of the deductible IRA contribution.
3. The SECURE Act opens the gates for more employers to offer **annuities** as investment options within 401(k) plans. While annuities do have the advantage of providing guaranteed income, they are complex investment products, oftentimes carrying high (and frequently hidden) fees. If an investor picks the wrong annuity, he or she can cause permanent damage to their future retirement prospects.



Source: https://www.forbes.com/sites/jlange/2019/06/11/the-hidden-money-grab-in-the-secure-act/#4410dfc33bbd

We are here to help.

*As always, please feel free to reach out and call (**916-405-9166**) or email (**spitchford@towerpointwealth.com**) with any questions, thoughts, or needs you may have. At Towerpoint Wealth, we are happy to be a direct and no-strings-attached resource for you.*

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